

gleeds

Market Outlook of Construction Cost August 2020

The current market outlook

The country's economy and the construction industry both have taken a heavy blow following the COVID-19 enforced lockdown from the 24th of March 2020 initially for 21 days, which was further extended till May 31st, 2020, making it one of the largest lockdowns imposed by any country.

These unprecedented and unplanned events had forced the industry to come to a standstill. The nation watched as migrant labour left the cities, which had no work to offer them and private businesses had pessimistic views and reduced spending. At this time of the Phase 1 lockdown, there was optimism that the lockdown would eventually contain the virus and economy would come back to normalcy sooner than later. It was perceived that construction works would resume as normal with the changed health and safety guidelines.

Lockdown and unlock timelines

Nationwide lockdown



Unlock



Since the lift of lockdown and relaxation of regulations, there is definitely progress and movement in the industry, albeit on a slower pace than expected. Resuming work on site did expose the personnel working there to the constant danger of the virus spread and has led to lower than normal productivity. The intermittent and short lockdown enforced by some states during unlock 1.0 to 3.0 has not been greatly successful yet, as India reported one of the highest spikes in August with 784,179 active cases persisting on the 31st of August.

India's GDP has contracted 23.9% in the April-June quarter. Construction, manufacturing trade and hotels and transport were the worst hit sectors, with construction recording a contraction as high 50.3%.

While all the necessary precautions and the standard operating procedures guidelines given by the Government have been implemented, productivity on site is being challenged by new normal way of work, staggered worktimes and ensuring medical conditions are adequate. Along with this, other aspects of shortage of labour, transportation restrictions, liquidity and supply chain management continue to hinder the ideal work conditions.

Results of 1st market survey

In May 2020, a comprehensive survey was conducted by Gleeds India to assess the market outlook of construction. **The survey respondents predicted at the time, that in 3 to 4 months, costs were expected to stabilise and labour would return to a safer working environment.**

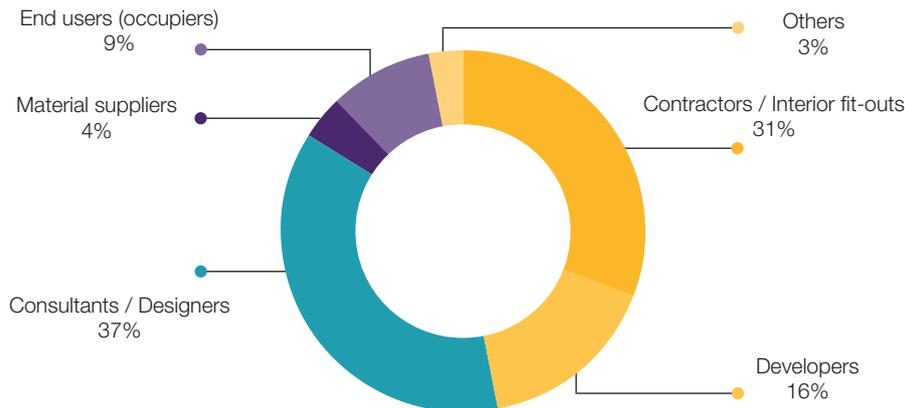
Having reached the next quarter, Gleeds believe that perceptions have changed from the previous quarter with the change in ground conditions. The industry has now accepted the new way of working and have gained a better clarity on the issues such as costs, labour productivity, health and hygiene requirements and therefore, a new survey would bring more insight to the Indian construction fraternity.

A follow up survey questionnaire was sent out at the beginning of August and responses were received and tabulated as on the 3rd week of August 2020 as noted in the report following. The survey collected opinions from the construction fraternity about various aspects such as market status, potential cost increases, loss of productivity, cost of labour, return of labour to sites amongst others.

General information

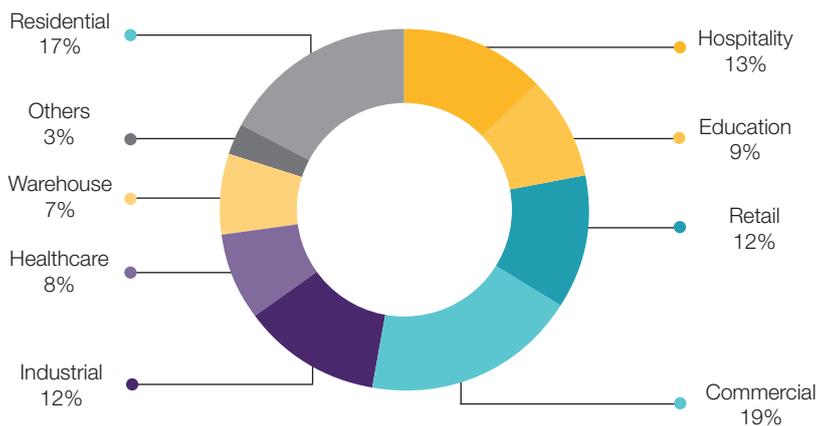
• Survey respondents

A total of 182 respondents participated in the survey representing all cross sections of the industry pan India. The participant group included Contractors, Consultants, Developers, End-users, Designers and Suppliers .



• Sector presence

The respondents were not limited to any single sector and has representation in all sectors well, contributing to a holistic view.



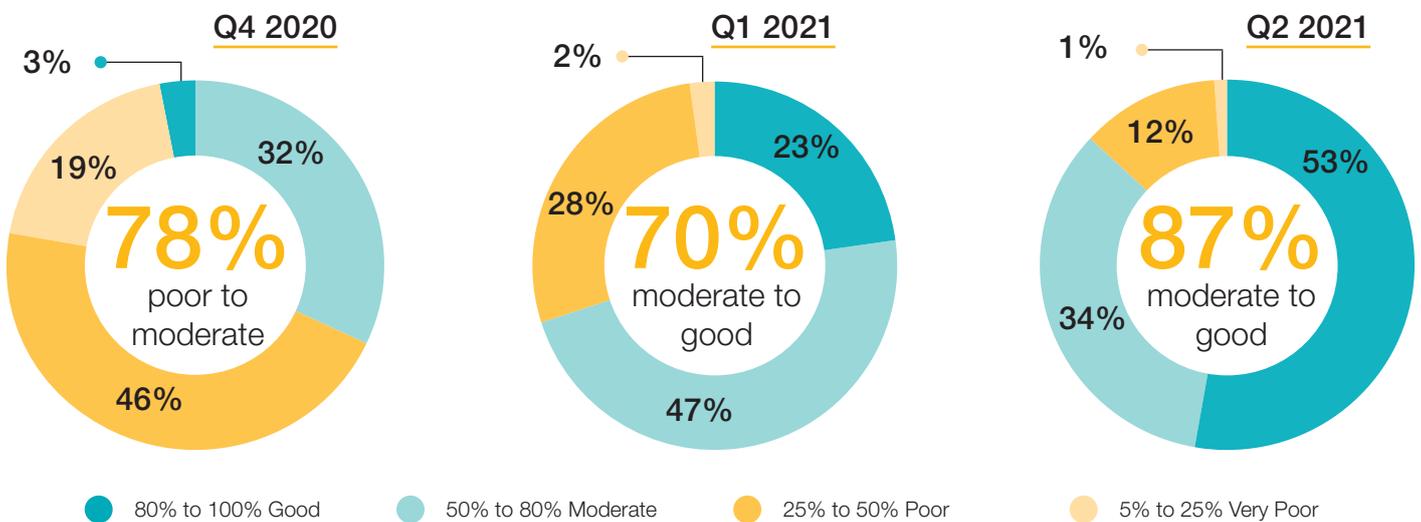
The construction business - In general

- Estimated timeline to achieve business as usual**

The respondent's opinion on what percentage of business as usual was likely to occur in the coming three quarters was sought.

It is observed that general sentiments in the market is that business is seen to be slowly picking up, however, Q4 2020 showing poor to moderate returns and sense of normalcy would be expected to return only in Q2 2021, provided the vaccine is found and distributed in India by year end 2020.

Timeline	Business - As - Usual	Respondent's Prime Indication
Q4 2020 (Oct-Dec)	Poor to Moderate	46% - Poor business 32% - Moderate business
Q1 2021 (Jan-Mar)	Moderate to Good	47% - Moderate business 23% - Good business
Q2 2021 (Apr-June)	Moderate to Good	53% - Good business 34% - Moderrate business



• **Business as usual - Across various sectors**

The respondents were asked what percentage of business as usual the various sectors have showcased since June 2020.

Based on the responses received, the scoring has been determined and noted. As expected, hospitality, retail and education has showcased a very poor growth where the majority of respondents believe that these sectors will take a longer time to get back to their prime. However, sectors such as health care and warehouse where 37% and 25% of respondents respectively believe that demand for these sectors is returning.



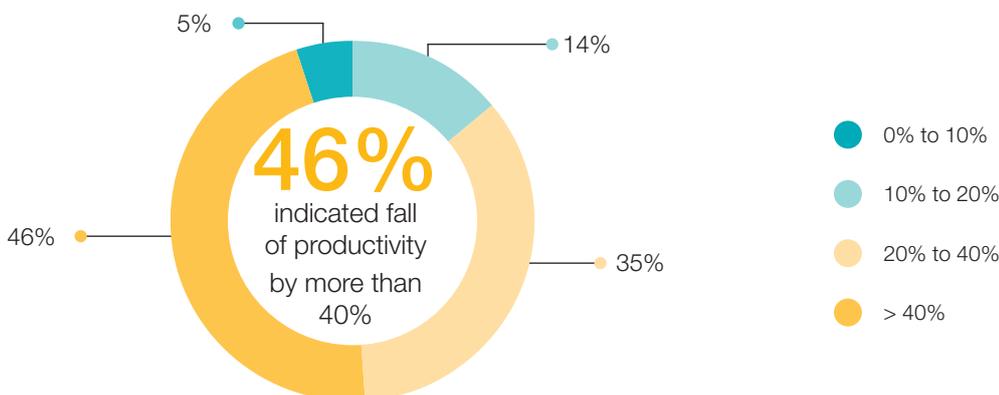
• **Fall in productivity**

One of the major concerns the construction fraternity has is related to productivity loss while working with the new normal conditions at site. When asked what the estimated percentage fall in the productivity of the current on-site construction operations were, nearly 50% of the respondents believe there is a fall in productivity by more than 40%, while 35% believe that the productivity has reduced between 20% to 40%.

Upon the return to site, workers have had to adopt to changes in the way a construction site functions. Social distancing norms, more staggered work timings and additional personal protective equipment are all big contributors to the reduced productivity of workers on site along with the constant challenge of the shortage of labour on site and supply chain disruptions.

There is also the requirement to adopt the new operating procedures, requiring a change in the mindset. The long periods of quarantine for any new workforce members, partial or full sealing off the site in case of any accidental exposure to virus, as precautionary measures, are all contributors to major drop in productivity on the site in comparison to Pre Covid 19 times.

It is essential to note that the significant loss of productivity due to cost of labour, though temporary, constitutes around 25-30% of a typical construction project cost and impacts of such nature cause a major imbalance. At the same time, the demand of the construction labour is expected to reduce due to the dwindling rate of new launches by private developers due to market conditions.

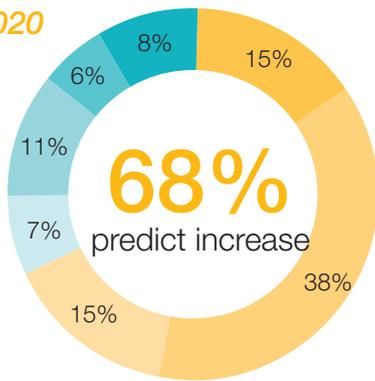


• **Cost of construction on normalisation**

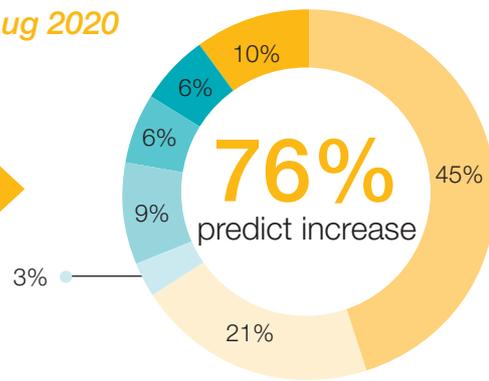
When asked what the opinion on the change in the Cost of Construction (COC) once construction activities are normalized, nearly 50% of the respondents believe that the cost of construction is likely to increase by 5% to 10%, while 20% believe the increase will be beyond 10% and up to 15%.

There is a consistency in the thinking of the increase in cost of construction from May 2020 to August 2020 survey. Both survey results have predicted a cost increase, and the maximum still believe in an overall rise from 5% to 10%.

May 2020



Aug 2020



● Reduce by 11% to 15 %
● Reduce by 5% to 10%

● Reduce by less than 5%
● No change

● increase by less than 5%
● Increase by 5% to 10%

● Increase by 11% to 15%



• **Change in the next 3 months for cost of construction**

The respondents were asked what the opinion on the impact on the cost of some major components of construction in the next three months was.

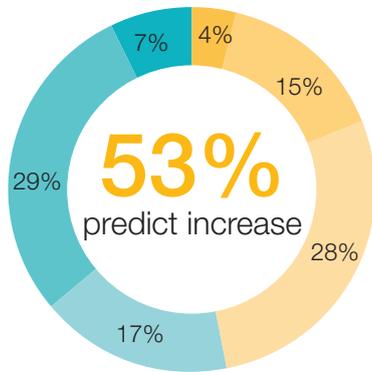
Most respondents believe that the costs would be increased by 5% to 10%. The result for each of the components are listed below.

• **Cement**

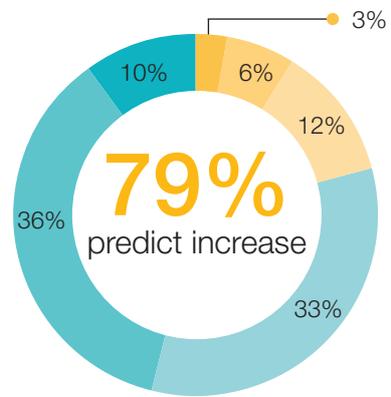
Cement has been predicted to increase as indicated by 79% of the respondents, with 69% predicting an increase up to 10%.

This sentiment has increased from the survey results of May 2020, where 53% of the respondents only were expecting cement prices to increase.

May 2020



Aug 2020

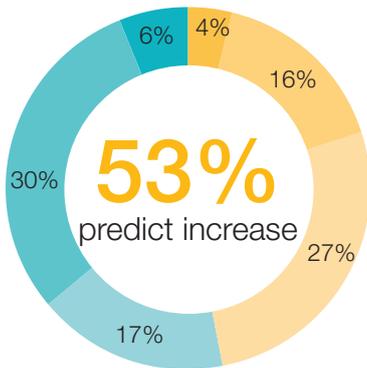


• **Steel**

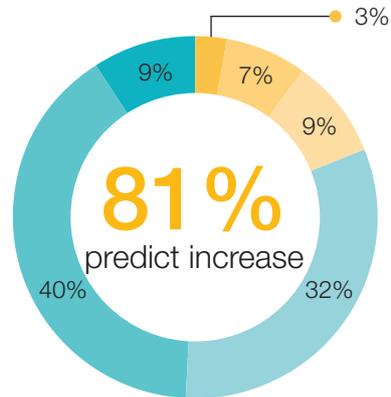
As per the survey of May 2020, 53% respondents were expecting steel prices to increase, however, based on latest survey results of August 2020, a staggering 81% respondents believe that steel prices would be increasing with 72% predicting up to 10% increase in steel rates.

It was noted in the market that there was a shoot in steel prices in June 2020, which was speculated to be the result of the many enquiries on structural steel, which could have been the outcome of the shortage of labour at the time. This maybe the reason the prediction of 'price increase' opinion has surged in the current survey.

May 2020



Aug 2020

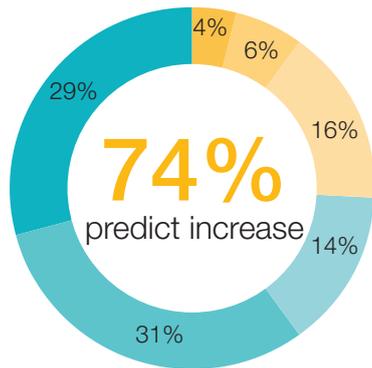


• **Labour**

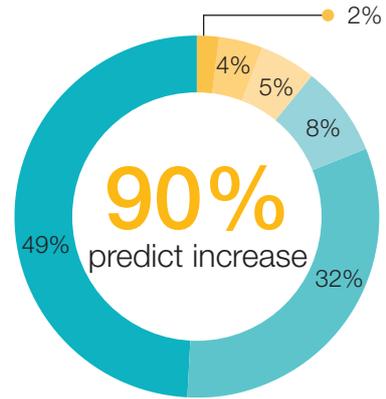
A large portion about 90% of the respondents believe that the cost of labour will increase, with nearly 50% who believe that the costs will increase more than 10%.

In the survey of May 2020, around 74% of the respondents had predicted an increase in price, which now has further increased which demonstrates clearly that the effect of labour cost increase of up to 10% indicated might need to be considered by project stakeholders.

May 2020



Aug 2020

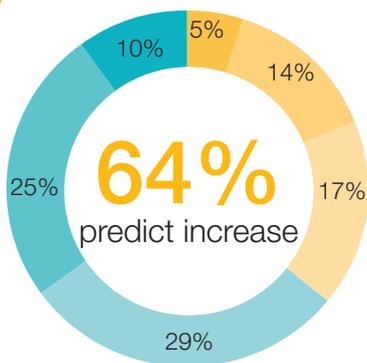


• **Building equipment (such as crane, elevator, sewage treatment plant)**

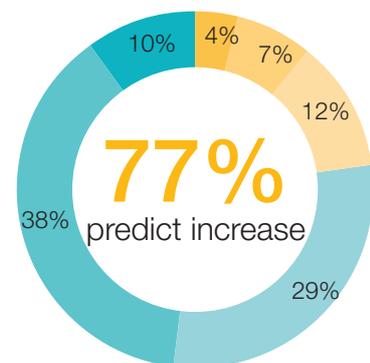
Building equipment such as elevators, sewage treatment plant (STP), cranes are based on input material costs, labour costs and transportation / installation crews. Gleeds believe the headwinds which are being felt by the manufacturers in their sourcing may be the reason why 77% of the respondents believe that there will be increase in costs of these elements.

This is in sync with May 2020 data, where 64% of the respondents had predicted increase in the costs of these items. With this is also the worry of transportation, logistics and reduced manufacturing following the market uncertainties.

May 2020



Aug 2020

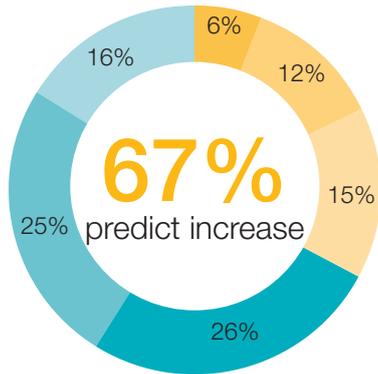


• **Imported items**

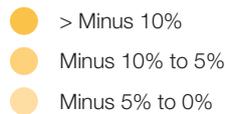
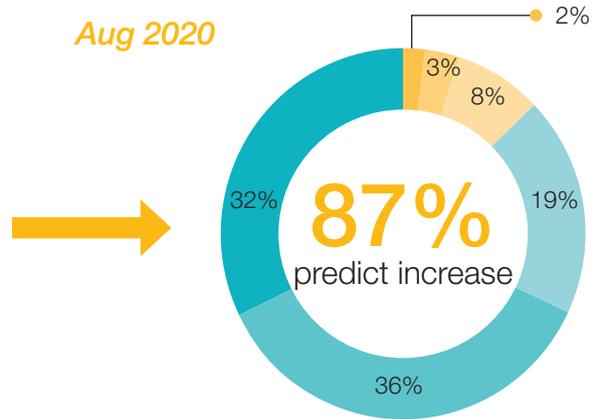
Gleeds believe that, uncertainty led by Forex fluctuation, could be some of the reasons why 87% of the respondents believe that there will be an increase in costs in the coming days, with about a third each split between 5% to 10% and over 10%.

Reflecting on the May 2020, survey results, 67% of the respondents predicted an increase in these costs.

May 2020



Aug 2020

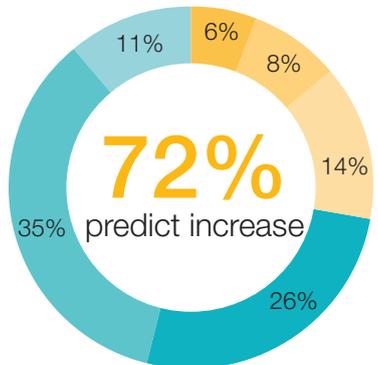


• **Change in costs of material rates due to delay in transportation**

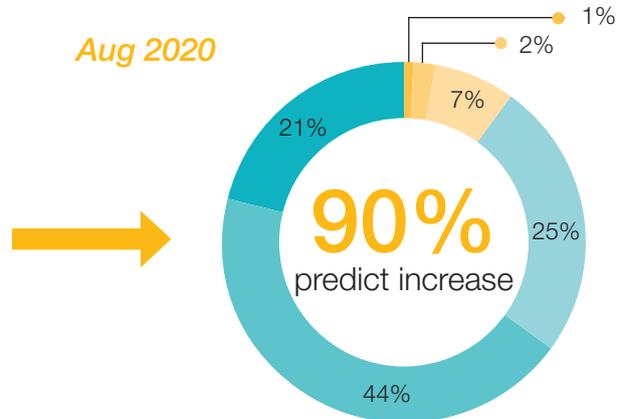
90% of the respondents believe that the costs of the materials are likely to increase influenced by the delay in transportation, with 44% indicating an increase from 5% to 10%.

In May 2020, 72% of the respondents predicted and increase with the maximum of them about 35% believing in an increase from 5% to 10%.

May 2020



Aug 2020



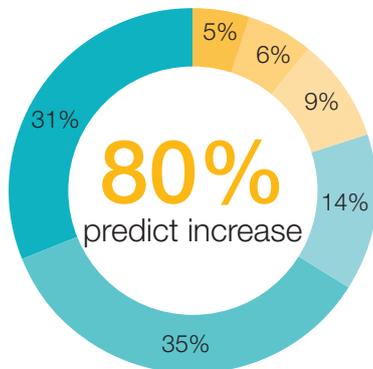
• **Health and hygiene**

The Indian construction industry has been lagging behind the world in proper site housekeeping which leads to deteriorated health and hygiene at site as well as labour camps. Forced consideration due to pandemic compliance has brought these issues to the forefront where all stakeholders are required to pay close attention to the wellbeing of workforce and review the process. As these costs were not part of the typical preliminaries, about 91% of the respondents now believe that there will be an increase in costs, with 42% believing the cost will increase more than 10% and 35% believe that cost will increase from 5% to 10%.

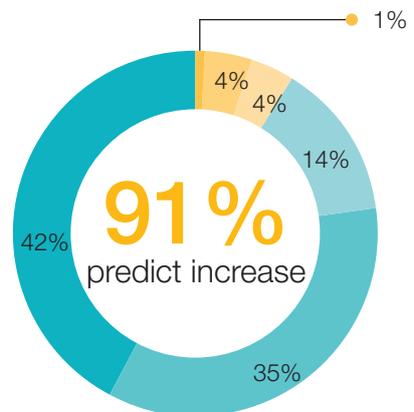
In May 2020, 80% of the respondents believed in increased costs, with a shift in number of respondents towards those who believe costs will increase by more than 10%.

The synchronised high response on increase in prices in both surveys at different times only indicate the high importance health and hygiene have in the current circumstances and will be required to be considered in future works.

May 2020



Aug 2020



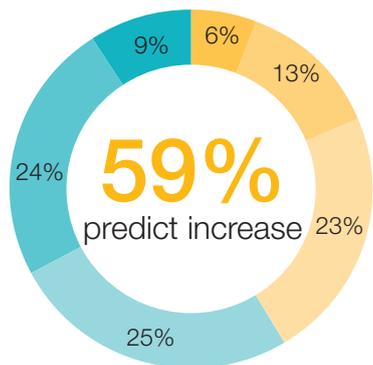
• **Preliminaries and administration costs**

Contractors quote various site overheads such as labour transport, labour and staff accommodation, washroom facilities amongst others. Based on the current guidelines, costs which are attached to these is expected to change.

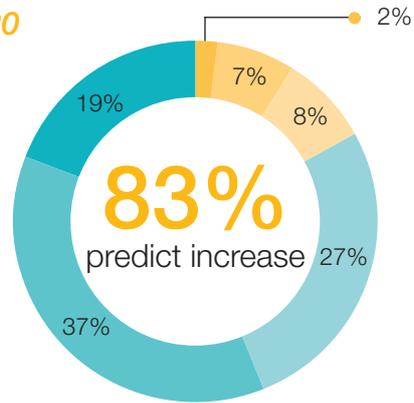
83% respondents believe in an increase in these costs, with the majority believing the increase will be between 5% to 10%.

In May 2020, 59% believed in an increase in cost of preliminaries and 55% believed in an increase in administration costs.

May 2020



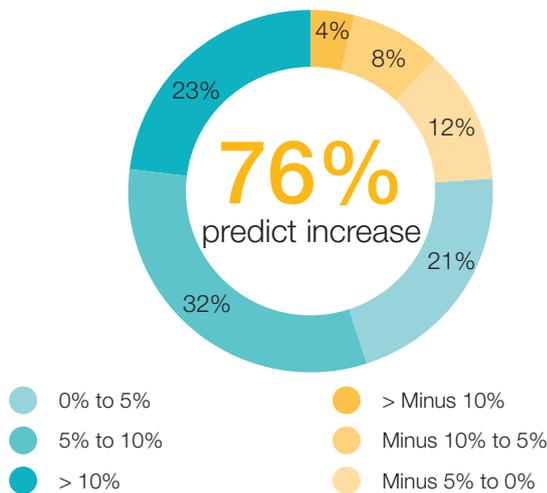
Aug 2020



• **Contractor's overheads and profits**

While in the current economic situation, the contractor's profit margins are expected to reduce to ensure they pick up work and stabilize, it was interesting to note that 76% of the respondents believe that the contractor's pricing for overheads and profit is expected to increase. Around 32% of the respondents believe that the increase could range from 5% to 10% compared to pricing prior to the pandemic.

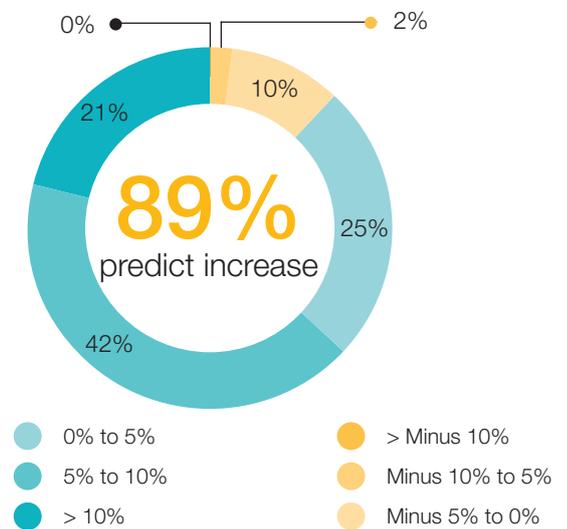
Gleeds believe that the current uncertainty of safety without a vaccine, the measures required to contain the spread at site and adverse contractual provisions may be some of the reasons why Contractors would like to increase their risk allocation in their pricing, resulting in this increase.



• **Logistics**

Holding the cargo for longer periods, lack of workforce for loading and unloading, limited availability of drivers and attendants for trucks and or containers, border control and restrictions, quarantine regulations along with rise in fuel prices may have led to the market perception of cost increase, in the opinion of Gleeds.

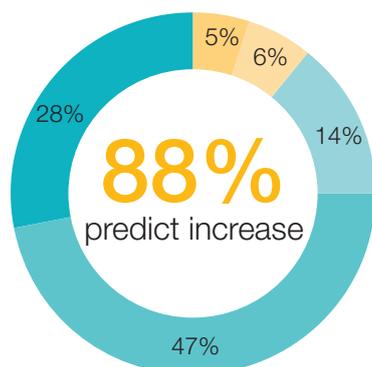
Hinderance in logistics, can also contribute to project delays, give rise to change orders and in turn work out to abnormal add on costs for project completion. 89% respondents now predict an increase in the cost of logistics with 42% believing the cost will increase from 5% to 10%



• **Overall cost of construction**

Considering the components of project costs such as material, labour, overheads, prelims and profit and or risk margins an increase is inferred from the survey results, leading to an overall increase in the cost of construction.

88% respondents predict an increase in costs with nearly half the respondents indicating an increase between 5% to 10% in the current survey.



It must be noted that these costs are expected to be a short-term indication. with the assumption that the uncertainty would reduce, and market sentiments will improve. During unlock 1 to unlock 3, the works at site slowly commenced with increase in labour strength, Gleeds are aware of sites which were required to be shut off again, few days after restarting due to adverse health conditions. With all possible precautions taken by all stakeholders, there is a change in the mindset of people, adopting life with COVID-19, the quick return to normalcy as inferred previously could not be attained.



Migrant labour - Return to work

The exodus of migrant labour as seen in April and May 2020 in India, where most site labour had left the major metros has posed many questions to policymakers on their welfare and wellbeing. Due to the informal nature of migrant workforce in construction, the overall impact of migration has been difficult to predict. However, as Indian construction is hugely labour intensive, the disruption along with the loss of productivity has caused delay on existing projects.

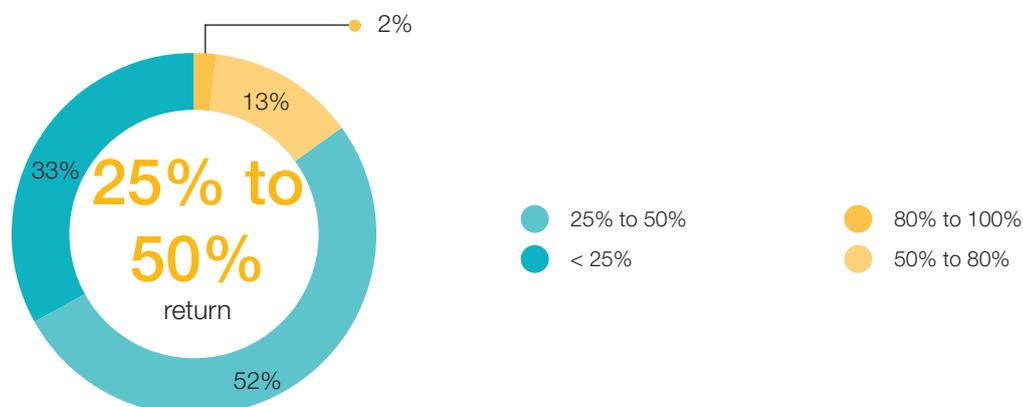
During the unlock processes and upcoming monsoon seasons, contractors and project developers have been trying very hard to bring back the labour force by arranging air flight tickets, providing better accommodation facilities along with other financial incentives, which has met limited success so far.

On the other hand, the workforce has been grappling with limited availability of work in the villages and constrained government spending through national schemes. It is

- **Return of labour after initial migration**

In the May 2020, the survey reported that about 50% to 80% of labour had left the site. This was during the complete lockdown.

When asked what percentage of labour are seen to return to site after the initial reverse migration, it is noted that 25% to 50% of labour have now returned to construction sites seeking to work.



also noted that migrant labour could have skills that their local villages and smaller towns cannot hire, and the remuneration in cities are relatively higher in comparison to the local villages

Considering this more and more workforce are returning to cities, despite the bitter experiences at lock down. in the hope that they will stay safe and find work to take care of their family. Based on Gleeds' market intelligence, tier 2 cities are benefiting more in this situation as workforce prefer to stay near to their hometown.

To assist the labour to find work, the State Governments are set out to do a skill mapping and help labour to find jobs with their previous employer, if required. The pandemic and the forced lockdown have also made the employers re-strategize labour hiring. Most employers are now, first looking at options of hiring locally or in the closet proximity to their sites before they look further, futureproofing, in case such an incident recurs.

This still reflects on the acute shortage of labour to normalize the works as previously planned. This does have an adverse effect on productivity as well as mounts on the preliminaries as labour camps have to be maintained, with extra health, safety and hygiene standards along with mandatory quarantine period for new labours.

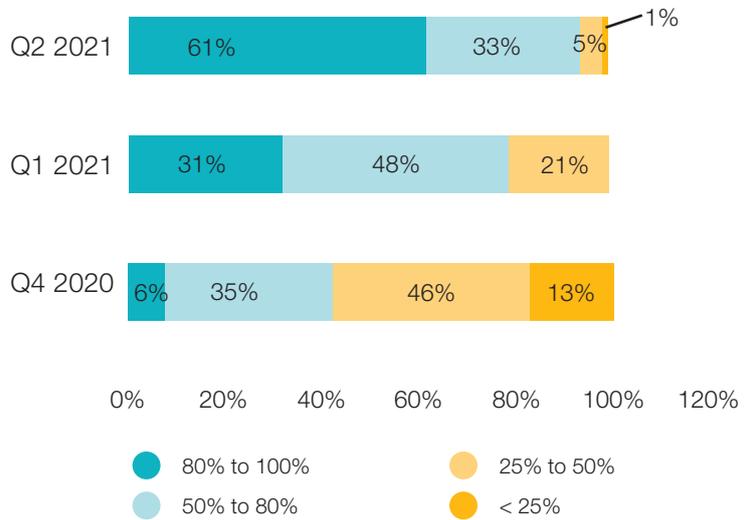
• **Estimated complete return of labour to work on site**

When asked what the opinion of the complete return of migrant labour to work on site will be across the next three quarters.

Q4 2020: 46% believe that only 25% to 50% of the labour will return.

Q1 2021: 48% believe that 50% to 80% of labour will return to work.

Q2 2021: 61% believe that 80% to 100% of labour will return to work.



This does indicate slow progress of labour returning, based on the fact that construction work will pick up and the labour would eventually recognise that they have less opportunities in the local areas as against cities, for their skillset, developed over the years.

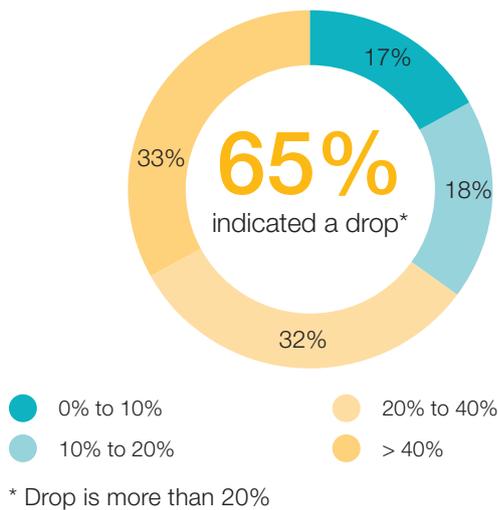


Tender outlook

Drop in tender enquiries

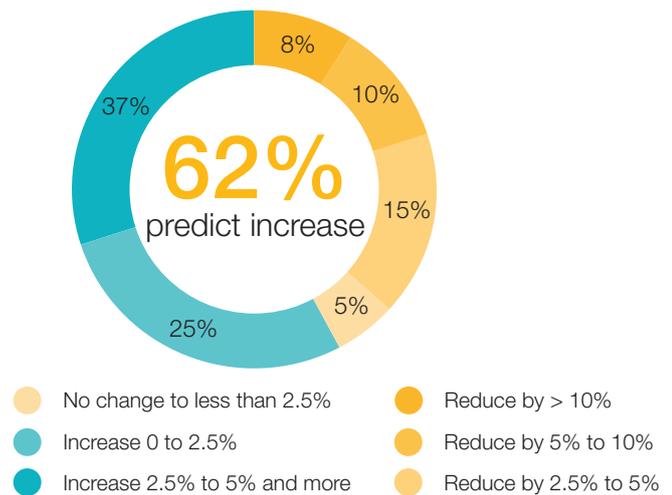
It is inferred that in the past three months the market has tightened up to investing in new projects and most developers are waiting for a more optimistic time. Some sectors could be showcasing an interest in growth such as warehousing or datacentres, resulting in about 17% believing that there is very little drop ranging from 0% to 10% in tender enquires.

When asked what the percentage of drop in tender enquiries in the past 3 months was, 65% indicate more than 20% drop with 33% indicating more than 40% drop in tender inquiries.



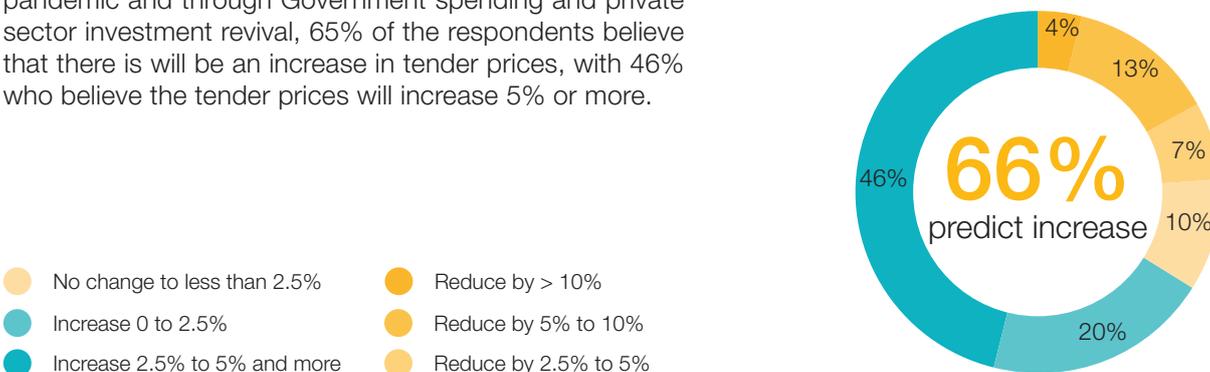
Increase in tender prices in 2020

When asked to predict in increase in overall tender return price price for the remaining part of year 2020, 62% of the respondents believe that there is will be an increase in tender prices, with over a third who indicate the prices have increased up to 5% and more. Even though, the managerial costs have reduced in most organizations by forced or voluntary pay cuts, the net effect due to increased labour, material, prelims and risk allocations seems to have contributed to increase in cost of construction to the contractors.



Increase in tender prices in 2021

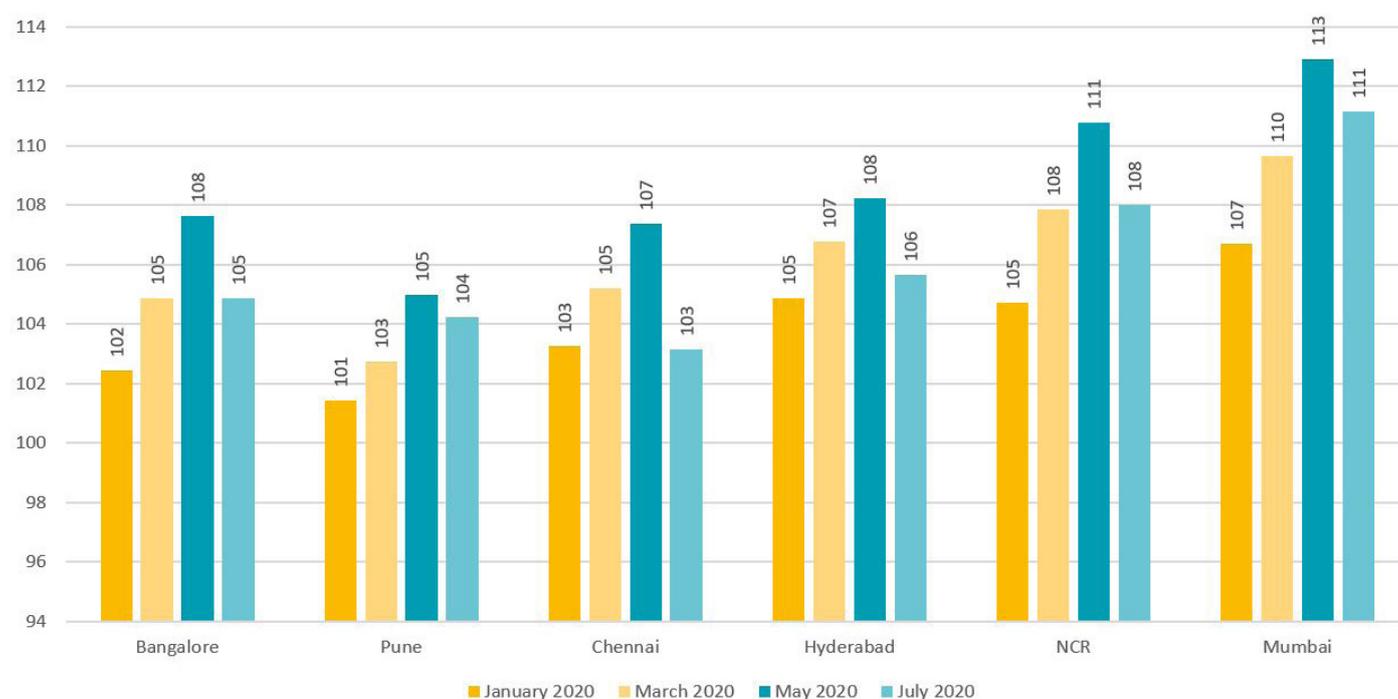
Next year, assuming that the market recovers well from this pandemic and through Government spending and private sector investment revival, 65% of the respondents believe that there is will be an increase in tender prices, with 46% who believe the tender prices will increase 5% or more.



City-wise cost indices

Gleeds carried out an extensive exercise to map the costs across the various Indian cities. The following methodology was adopted to derive the indices.

- A basket of items comprising of the most commonly used materials in construction, labour and consumables was established. These goods have been identified and known to demonstrate the inflation and dynamic nature of the goods typically used in the construction sector. Approximate individual quantities within the items were taken to represent standard type of commercial building.
- Appropriate weightage was given to each of the items and based on weighted average method, a base Index was calculated.
- December has been considered as the base month as this is the best representation of costs before the uncertainty of the pandemic. The base city taken for calculation of Index is Bangalore.
- Cost movement for the different cities across similar timelines has been mapped and the indices were thus derived.



Source: Gleeds survey results and Gleeds Project Database

The Gleeds Cost Indices of August 2020 showcase a slight drop in prices of the construction costs in general compared to peak pricing of May 2020. Though there has been a market fluctuation revolving around uncertainties, suppliers and contractors with a strong supply chain have been able to procure material at a consistent price.

Due to return of workforce, the labour costs have now been stabilized. It is also noted that costs of preliminaries have increased and the productivity on site has decreased, costs of both which will reflect as project abnormal costs or costs changes, which can only be assessed on a project to project basis.

Look ahead

The survey has suggested quite explicitly that complete normalisation of construction works could be expected only by Q2 2021, subject to cure of pandemic and favourable global economic conditions. In the meantime, cost of construction in the next 3 months and labour prices are predicted to increase, more so for labour. It is noted that the acute shortage of labour, after the relaxation of lockdown is now slowly easing, with migrant labour trickling back to the cities in search of jobs. Most sites have now commenced functioning with the new requisites of health and safety and are following revised standard operating procedures.

In the previous report issued in June 2020, the survey indicated that there will be a sense of normality in about 3-4 months after the lockdown is lifted. This is beginning to reflect as most entities have commenced work and have come to terms with coexisting with the deadly virus. This is paving way to a change in the way a construction site works and in turn is reflecting on the costs incurred for the change. The present survey also indicates that there is an increase in cost of construction, stemming from the price increase in cement, steel, transportation, material, preliminaries, logistics and overheads and profits. The biggest contributors to the increase, however, are likely to be labour, health and hygiene and other costs contributing to the maintenance of a safe construction site or office.

The next quarter- Q4 2020 (October to December)

Overall cost of construction is predicted to increase mostly by 5% to 10%, and only up to 50% of the labour are believed to have currently returned to sites. There has been a considerable drop in tender enquiries and tender prices are predicted to increase up to 5% or more.

Sector growth has not been too promising during the pandemic. The healthcare and warehousing are the only sector that has shown good progress followed by the commercial & industrial sectors. Data Centres are seen to be picking up too.

This quarter showcases an extension to the present quarter which likely involves getting on with site progress and attempting to complete the works that have commenced. The results of the survey only showcase an opinion over an incomplete situation which is evolving and is assessed situationally differing from project to project. New commissions are expected to be slow to take off, with the uncertainty still looming over. The industry is seen to strategize and reset itself to accommodate for the new SOP which may be the future new normal.

The next year- Q1 2021 and Q2 2021

There is an optimism that the industry will reboot and resume business-as-usual from Q2 2021, as indicated by more than half of the respondents. The progress to the complete resumption has already commenced and is slowly taking the upward trend. Work will become close to normal again with tender prices and cost of construction expected to increase considering the required basic changes in the Indian construction industry. Some also believe that the way of construction might get restructured and will lean more towards digitalisation, modular and work automation, reducing the dependency on labour. Local procurement is expected to increase through Government of India's Vocal for Local campaigns. The supply chain will re-route and discover new paths to meet the local demand.

Developers are recommended to set up contingency funds, considering the uncertain future. The market is dropping and with high competitiveness, there is a chance of contractors absorbing their profit margins, to survive in the market, which may partially compensate the extra cost of preliminaries & health and safety. However, price fluctuations resulting from the country's economy or ready availability of materials and labour have to be accounted for, to run the project into completion.

In conclusion, changes that are occurring seem positive and heading in the direction of a better and safer future for construction practices and all its stakeholders. These will necessitate a change in the way of construction thus far and has cost impacts which need to be considered. Due to COVID - 19 pandemic, there is a very strong headwind in the Indian economy with limited headroom for the Government with reduced GST and tax receipt collection.

These issues coupled with geopolitical situations at borders and trade war is a volatile combination which has disrupted the economic growth of the world's largest democracy. It is believed and hoped that a vaccine for COVID -19 will be made available and rolled out towards the end of 2020 which could bring back world-wide confidence and the market is likely to improve and stabilise by the 2nd Quarter of 2021.

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